

SANDUSKY COMMUNITY SCHOOLS

SANDUSKY, MICHIGAN

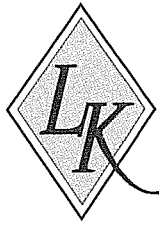
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 3, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Sandusky Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sandusky Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 3, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - IX and 18 - 19 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sandusky Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Sandusky Community Schools, a K-12 school District located in Sanilac County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sandusky Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Sandusky Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003:

NET ASSETS SUMMARY

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets	\$4,090,050	\$3,348,881
Non-Current Assets	<u>13,553,177</u>	<u>13,532,703</u>
<u>TOTAL ASSETS</u>	<u>\$17,643,227</u>	<u>\$16,881,584</u>
<u>LIABILITIES</u>		
Current Liabilities	\$3,202,587	\$2,031,262
Long-Term Liabilities	<u>12,811,107</u>	<u>13,266,414</u>
Total Liabilities	\$16,013,694	\$15,297,676
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	107,738	675,642
Restricted - Debt Retirement	417,370	312,882
Restricted - Capital Projects	103,558	0
Unrestricted	<u>1,000,867</u>	<u>595,384</u>
Total Net Assets	<u>\$1,629,533</u>	<u>\$1,583,908</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$17,643,227</u>	<u>\$16,881,584</u>

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$909,076	\$890,119
Property Taxes Levied for Debt Service	1,257,910	1,189,549
State of Michigan Unrestricted Foundation Aid	8,353,734	8,328,254
Other General Revenues	<u>130,721</u>	<u>147,573</u>
Total General Revenues	\$10,651,441	\$10,555,495
<u>Operating Grants:</u>		
Federal	721,464	652,164
State of Michigan	<u>513,345</u>	<u>704,535</u>
Total Operating Grants	\$1,234,809	\$1,356,699
<u>Charges for Services:</u>		
Food Service	248,880	254,222
Athletics	66,111	59,087
Other Charges for Services	<u>176,419</u>	<u>157,013</u>
Total Charges for Services	\$491,410	\$470,322
Total Revenues	\$12,377,660	\$12,382,516
<u>EXPENSES</u>		
Instruction & Instructional Support	6,798,701	6,665,436
Support Services	4,224,043	3,541,911
Community Services	10,813	0
Food Service	584,612	494,528
Athletics	182,440	189,579
Interest on Long-Term Debt	68,542	868,463
Bond Issuance Costs	211,200	0
Depreciation	<u>251,684</u>	<u>255,142</u>
Total Expenses	\$12,332,035	\$12,015,059
<u>INCREASE IN NET ASSETS</u>	\$45,625	\$367,457
<u>BEGINNING NET ASSETS</u>	<u>1,583,908</u>	<u>1,216,451</u>
<u>ENDING NET ASSETS</u>	<u><u>\$1,629,533</u></u>	<u><u>\$1,583,908</u></u>

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets increased by \$45,625 to a total of \$1,629,533. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$567,904 during the year due to depreciation exceeding purchases of new capital assets and principal payments on related debt. The districts Unrestricted Net Assets increased by \$405,483 during the year and the restricted portion of the net assets increased by \$208,046. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$45,625. The total revenues decreased by \$4,856. Expenditures increased by \$316,976. Major changes were increases in the costs associated with the refinancing of long-term debt.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Fund balance for the general fund increased by \$89,729 during the year with the increase coming primarily from a increase in cash. Revenues for the year decreased by \$92,261 primarily from mid-year state aid reductions. Expenditures and other financing uses decreased by \$100,590, primarily due to spending costs because of the reduction in state aid. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Sandusky Community Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for state aid for 2003-2004 was 1,391 students. A decrease of 23 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17.901 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$909,076. An increase of \$18,957 from the prior year.

Capital Projects Fund

The districts Capital projects fund balance decreased by \$682,659. Investment earnings are the primary source of revenue in the fund and they decreased by \$16,368 from the previous year. Expenditures which are restricted for construction projects increased by \$208,066 from the prior year.

Debt Retirement Fund

The districts debt retirement fund balance increased by \$104,488. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$880,146 in paying the required interest and principal payments of the school's bonded debt. The majority of the fund's revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2003-2004, the District's debt millage levy was 7.46 mills that generated revenue of \$1,257,910. An increase of \$68,361 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances increased by \$26,603.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$10,281,030	\$10,456,871	\$10,456,872	1.71%	0.00
Expenditures	10,550,076	10,367,139	10,367,143	-1.73%	(0.00)
<u>TOTAL</u>	<u>(\$269,046)</u>	<u>\$89,732</u>	<u>\$89,729</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sandusky Community Schools amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget or the final budget and actual results.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
General Obligation Bonds	\$13,457,750	\$9,845,000	\$10,067,663	\$13,235,087
MI School Bond Loan Fund	123,982	0	0	123,982
Bus Notes Payable	184,156	0	97,786	86,370
Capital Leases Payable	29,086	0	29,086	0
Sick Days Payable	176,031	0	29,980	146,051
<u>Total Long-Term Debt</u>	<u>\$13,971,005</u>	<u>\$9,845,000</u>	<u>\$10,224,515</u>	<u>\$13,591,490</u>

On January 21, 2004, the District advanced refunded (i.e. refinanced) a portion of their outstanding bonded debt obligations to take advantage of the low interest rates available in the bond market. The advanced refunding reduced total debt service payments over the next 17 years by \$706,790. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$507,619.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Capital Assets

The district's net investment in capital assets increased by \$20,474 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$19,045,657	\$559,066	\$80,742	\$19,523,981
Less: Accumulated Depreciation	(5,512,954)	(530,518)	(72,668)	(5,970,804)
<u>Net Investment Capital Assets</u>	<u>\$13,532,703</u>	<u>\$28,548</u>	<u>\$8,074</u>	<u>\$13,553,177</u>

Significant additions to capital assets were building improvements and a parking lot.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Sandusky Community Schools.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$2,473,159	\$1,693,282
Accounts Receivable	735	447
Due from Other Governmental Units	1,604,226	1,641,601
Due from Internal Accounts	7,527	9,551
Inventory	4,403	4,000
Total Current Assets	<u>\$4,090,050</u>	<u>\$3,348,881</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	19,523,981	19,045,657
Less: Accumulated Depreciation	<u>(5,970,804)</u>	<u>(5,512,954)</u>
Total Noncurrent Assets	<u>\$13,553,177</u>	<u>\$13,532,703</u>
<u>TOTAL ASSETS</u>	<u>\$17,643,227</u>	<u>\$16,881,584</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	145,002	122,109
State Aid Anticipation Note Payable	1,600,000	400,000
Salaries Payable	562,066	546,426
Accrued Expenses	105,703	215,202
Deferred Revenue	9,433	42,934
Current Portion of Long-Term Obligations	780,383	704,591
Total Current Liabilities	<u>\$3,202,587</u>	<u>\$2,031,262</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>12,811,107</u>	<u>13,266,414</u>
<u>TOTAL LIABILITIES</u>	<u>\$16,013,694</u>	<u>\$15,297,676</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	107,738	675,642
Restricted for:		
Debt Retirement	417,370	312,882
Capital Projects	103,558	0
Unrestricted	<u>1,000,867</u>	<u>595,384</u>
<u>TOTAL NET ASSETS</u>	<u>\$1,629,533</u>	<u>\$1,583,908</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003	
	Expenses	Program Revenues		Net (Expense) Revenue & Change in Net Assets	Net (Expense) Revenue & Change in Net Assets
		Charges For Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$6,798,701	\$0	\$889,200	(\$5,909,501)	(\$5,705,260)
Support Services	4,224,043	176,419	15,411	(4,032,213)	(3,289,694)
Community Services	10,813	0	0	(10,813)	0
Food Service	584,612	248,880	330,198	(5,534)	61,013
Athletics	182,440	66,111	0	(116,329)	(130,492)
Interest - Long-Term Obligations	68,542	0	0	(68,542)	(868,463)
Bond Issuance Costs	211,200	0	0	(211,200)	0
Depreciation - Unallocated	251,684	0	0	(251,684)	(255,142)
TOTALS	\$12,332,035	\$491,410	\$1,234,809	(\$10,605,816)	(\$10,188,038)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				2,166,986	2,079,668
State Aid				8,353,734	8,328,254
Grants and Contributions Not Restricted to Specific Programs				962	0
Investment Earnings				24,014	37,944
Miscellaneous				105,745	109,629
Total General Revenues and Transfers				<u>\$10,651,441</u>	<u>\$10,555,495</u>
Change in Net Assets				\$45,625	\$367,457
Net Assets - Beginning - As Restated				<u>1,583,908</u>	<u>1,216,451</u>
<u>Net Assets - Ending</u>				<u>\$1,629,533</u>	<u>\$1,583,908</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,742,324	\$730,835	\$2,473,159
Accounts Receivable	0	735	735
Due from Other Funds	7,527	618	8,145
Due from Other Governmental Units	1,604,226	0	1,604,226
Inventory	0	4,403	4,403
<u>TOTAL ASSETS</u>	<u>\$3,354,077</u>	<u>\$736,591</u>	<u>\$4,090,668</u>
<u>LIABILITIES</u>			
Accounts Payable	\$134,087	\$10,915	\$145,002
Due to Other Funds	618	0	618
State Aid Anticipation Note Payable	1,600,000	0	1,600,000
Salaries Payable	562,066	0	562,066
Accrued Expenses	5,527	0	5,527
Deferred Revenue	9,433	0	9,433
Total Liabilities	\$2,311,731	\$10,915	\$2,322,646
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	4,403	4,403
Debt Retirement	0	417,370	417,370
Capital Projects	0	103,558	103,558
Unreserved:			
Undesignated, Reported In:			
General Fund	1,042,346	0	1,042,346
School Service Funds	0	200,345	200,345
Total Fund Balances	\$1,042,346	\$725,676	\$1,768,022
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,354,077</u>	<u>\$736,591</u>	<u>\$4,090,668</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:		\$1,768,022
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$19,523,981 and the accumulated depreciation is \$5,970,804		13,553,177
Accrued Interest on Long-Term Debt		(100,176)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$13,235,087	
Notes Payable	86,370	
MI School Bond Loan	123,982	
Compensated Absences Payable	146,051	
Total Long-Term Liabilities		<u>(13,591,490)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$1,629,533</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$1,182,992	\$1,590,590	\$2,773,582
State Sources	8,823,677	43,402	8,867,079
Federal Sources	434,668	286,796	721,464
Total Revenues	<u>\$10,441,337</u>	<u>\$1,920,788</u>	<u>\$12,362,125</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	6,734,062	0	6,734,062
Student Services	373,539	0	373,539
Instructional Support	167,851	0	167,851
General Administration	314,922	0	314,922
School Administration	541,913	0	541,913
Business Administration	168,532	0	168,532
Operation & Maintenance of Plant	1,027,300	0	1,027,300
Transportation	651,278	0	651,278
Community Services	10,813	0	10,813
Food Service	0	757,881	757,881
Debt Service	0	880,146	880,146
Capital Outlay	0	686,129	686,129
Total Expenditures	<u>\$9,990,210</u>	<u>\$2,324,156</u>	<u>\$12,314,366</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$451,127	(\$403,368)	\$47,759
<u>OTHER FINANCING SOURCES (USES)</u>			
Loan Proceeds	0	9,845,000	9,845,000
Payment to Bond Escrow Agent	0	(9,912,000)	(9,912,000)
Other Transactions	(231,398)	(211,200)	(442,598)
Transfers to Other Funds (Net)	(130,000)	130,000	0
Total Other Financing Sources (Uses)	<u>(\$361,398)</u>	<u>(\$148,200)</u>	<u>(\$509,598)</u>
Net Change in Fund Balance	\$89,729	(\$551,568)	(\$461,839)
<u>FUND BALANCE - BEGINNING</u>	<u>952,617</u>	<u>1,277,244</u>	<u>2,229,861</u>
<u>FUND BALANCE - ENDING</u>	<u>\$1,042,346</u>	<u>\$725,676</u>	<u>\$1,768,022</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	(\$461,839)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

20,474

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

Loan Proceeds from Issuance of Bonds	(9,845,000)
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Deposit with Escrow Agent	9,490,000
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Bond and Loan Payments	704,535
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Change in accrued interest on long-term liabilities	107,475
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Decrease in accrued compensated absences	<u>29,980</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$45,625</u></u>
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$126,708</u>
<u>TOTAL ASSETS</u>	<u><u>\$126,708</u></u>
<u>LIABILITIES</u>	
Due to Other Funds	\$7,527
Due to Student Groups	<u>119,181</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$126,708</u></u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sandusky Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Bank One, N.A. - Sandusky. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$2,599,866 and the bank balance was \$2,687,425. \$527,864 of the bank balance was covered by federal depository insurance and \$2,159,561 was uninsured and uncollateralized.

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name. The District had no investments at June 30, 2004.

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,586,414
Other Grant Programs & Fees	17,812
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,604,226</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the School District had \$41,033 in estimated claims in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$1,600,000 at 1.03% per annum on August 20, 2003, from Bank One on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2004 was \$1,600,000. The note matures August 20, 2004.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$17,323,169	\$344,129	\$0	\$17,667,298
Land Improvements	373,772	198,743	0	572,515
Equipment and Furniture	218,798	16,194	0	234,992
Vehicles	1,129,918	0	80,742	1,049,176
Totals at Historical Cost	\$19,045,657	\$559,066	\$80,742	\$19,523,981
Less: Accumulated Depreciation				
Buildings and Improvements	(4,593,178)	(387,492)	0	(4,980,670)
Land Improvements	(296,024)	(9,644)	0	(305,668)
Equipment and Furniture	(157,019)	(28,365)	0	(185,384)
Vehicles	(466,733)	(105,017)	(72,668)	(499,082)
Total Accumulated Depreciation	<u>(\$5,512,954)</u>	<u>(\$530,518)</u>	<u>(\$72,668)</u>	<u>(\$5,970,804)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$13,532,703</u>	<u>\$28,548</u>	<u>\$8,074</u>	<u>\$13,553,177</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 64,639
Support Services	205,024
Athletics	9,171
Unallocated	<u>251,684</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 530,518</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$83,933 and the School District received a dividend refund of \$22,961.

11) GENERAL LONG-TERM DEBT

A) General Obligation Bonds Payable

1994 Series

Sandusky Community Schools has issued bonds to partially advance refund the 1991 Series bonds. These bonds were issued January 12, 1994 in the amount of \$11,140,000 bearing interest at rates varying from 3.6% to 5.40% per annum. These bonds were advance refunded on January 21, 2004. The defeased debt to be paid from the escrowed refunding bonds was \$9,490,000 at June 30, 2004.

2000 School Building and Site Bonds

Sandusky Community Schools has issued General Obligation Bonds dated July 26, 2000, in the amount of \$2,065,000, bearing interest at rates varying from 5.00% to 5.50% per annum. These bonds were issued for the purpose of erecting, furnishing and equipping additions to Maple Valley Elementary and developing and improving athletic fields and facilities, parking improvements and sites. The balance of the bonds as of June 30, 2004 was \$1,915,000.

2001 Energy Conservation Improvement Bonds (General Obligation – Limited Tax) Qualified Zone Academy Bonds

Sandusky Community Schools issued 2001 Energy Conservation Improvement Bonds dated June 1, 2001, in the amount of \$1,789,620 at 100% of par and accrued interest to the date of delivery, maturing on June 1 of each year. The balance as of June 30, 2004 was \$1,376,631.

2004 Refunding Bonds

The Bonds are being issued for the purpose of refunding all of the District's outstanding 1994 Bonds, dated January 12, 1994, which are due and payable May 1, 2005 through May 1, 2021, inclusive, (the "Prior Bonds") and to pay the costs of issuing the Bonds. The bonds were issued January 21, 2004 in the amount of \$9,845,000 bearing interest at rates varying from 2.000% to 4.125% per annum. The balance of the bonds as of June 30, 2004 was \$9,845,000.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) GENERAL LONG-TERM DEBT (Continued)

A) General Obligation Bonds Payable (Continued)

2004 Refunding Bonds (Continued)

The advanced refunding reduced total debt service payments over the next 17 years by \$706,790. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$507,619.

B) Durant Resolution Package Bonds

Sandusky Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$154,111 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$98,456. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

C) Michigan School Bond Loan Fund

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years for the purpose of assisting the district in meeting the payment of principal and interest requirements of the 1991 Debt Issue as they become due. This loan is made pursuant to Section 16 of Article IX of the Michigan Constitution of 1963, and Act 108 of the Public Acts of 1961, as amended. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 1991 Debt Issue. The school district shall levy on its tax rolls for this year, and each year thereafter, not less than 7 mills, or such lower millage as the legislature shall prescribe, on each dollar of its assessed valuation as last equalized by the State, exclusive of any levy for unqualified bonds or for school operating purposes, until this loan is repaid with interest at rates to be annually determined by the State Administrative Board in accordance with law. The balance payable as of June 30, 2004 was \$123,982.

D) Bus Notes Payable

Sandusky Community Schools is indebted to Eastern Michigan Bank, for the purchase of 4 buses. The note is dated November 8, 2000 in the amount of \$180,000, with an interest rate of 4.99% per annum, requires annual payments of \$4,144 plus interest. The balance of the note at June 30, 2004 was \$20,379.

Sandusky Community Schools is indebted to Bank One, Sandusky for the purchase of buses. The note is dated September 25, 2001 in the amount of \$200,000, with an interest rate of 3.74% per annum, requires monthly payments of \$4,493 including interest commencing November 1, 2001. The balance of the note at June 30, 2004 was \$65,991.

E) Capital Leases

Sandusky Community Schools entered into a lease agreement with the Kansas State Bank of Manhattan for the lease of Lanier copiers as follows:

LEASE DATE	COPIER MODEL	LEASE TERM	INTEREST RATE	MONTHLY PAYMENT
August, 1999	5255	60 Months	6.45%	\$ 2,512.84

The following is an analysis of the leased property under capital lease by class:

CLASSES OF PROPERTY

Office Equipment

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) GENERAL LONG-TERM DEBT (Continued)

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	General Obligation Bonds	Michigan School Bond Loan Fund	Bus Notes Payable	Interest	Total
June 30, 2005	\$707,663	\$0	\$72,719	\$474,911	\$1,255,293
June 30, 2006	730,123	0	13,651	396,882	1,140,656
June 30, 2007	768,309	0	0	395,657	1,163,966
June 30, 2008	755,850	0	0	369,470	1,125,320
June 30, 2009	809,826	0	0	355,162	1,164,988
June 30, 2010-2014	4,103,316	0	0	1,492,347	5,595,663
June 30, 2015-2019	3,860,000	0	0	822,909	4,682,909
June 30, 2020-2021	1,500,000	0	0	99,619	1,599,619
Thereafter	0	123,982	0	0	123,982
<u>TOTAL</u>	<u>\$13,235,087</u>	<u>\$123,982</u>	<u>\$86,370</u>	<u>\$4,406,957</u>	<u>\$17,852,396</u>

The payment dates of sick days payable are undeterminable. Interest paid for the year on long-term obligations was \$643,047.

G) Changes in General Long-Term Debt

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
General Obligation Bonds	\$13,457,750	\$9,845,000	\$10,067,663	\$13,235,087	\$707,663
MI School Bond Loan Fund	123,982	0	0	123,982	0
Bus Notes Payable	184,156	0	97,786	86,370	72,719
Capital Leases Payable	29,086	0	29,086	0	0
Sick Days Payable	176,031	0	29,980	146,051	0
<u>Total Governmental Activities</u>	<u>\$13,971,005</u>	<u>\$9,845,000</u>	<u>\$10,224,515</u>	<u>\$13,591,490</u>	<u>\$780,382</u>

12) OPERATING LEASES

Sandusky Community Schools has entered into the following operating leases summarized below:

Operating Lease as Lessor

The District entered into a lease with the Sanilac Intermediate School District Special Education Consortium for the purpose of leasing a building under construction at the Sandusky Middle School. The lease dated June 16, 1993 began on July 1, 1993 with occupancy occurring on or about August 23, 1993 and extends for fifteen years. Lease payments totaling \$140,000 were paid at the inception of the lease. The purpose of the lease is to allow the consortium to provide special education services and other related services. The lessor is responsible for all utilities and property and casualty insurance.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

13) INTERFUND BALANCES

Interfund balances at June 30, 2004 consisted of the following:

DUE TO	DUE FROM	
		GENERAL FUND
	Trust & Agency Fund	<u>\$7,527</u>
	<u>TOTAL</u>	<u>\$7,527</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		GENERAL FUND
	Athletics Fund	<u>\$130,000</u>
	<u>TOTAL</u>	<u>\$130,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

15) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$797,236, \$798,291 and \$759,261, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of losses in conducting its operations, from property and casualty, theft, damages to various tort and liability claims, and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are the Nutrition Cluster Grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit report has not yet been accepted by the grantor. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

REQUIRED
SUPPLEMENTARY
INFORMATION

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$1,114,917	\$1,182,992	\$1,182,992	\$0
State Sources	8,741,658	8,823,677	8,823,677	0
Federal Sources	424,455	434,668	434,668	0
Total Revenues	\$10,281,030	\$10,441,337	\$10,441,337	\$0
<u>EXPENDITURES</u>				
Current:				
Instruction	6,952,555	6,734,062	6,734,062	0
Student Services	369,692	373,539	373,539	0
Instructional Support	268,157	167,851	167,851	0
General Administration	268,137	314,922	314,922	0
School Administration	501,542	541,912	541,913	(1)
Business Administration	203,470	168,531	168,532	(1)
Operation & Maintenance of Plant	1,009,390	1,027,298	1,027,300	(2)
Transportation	658,210	651,278	651,278	0
Community Services	0	10,814	10,813	1
Total Expenditures	\$10,231,153	\$9,990,207	\$9,990,210	(\$3)
Excess of Revenues Over Expenditures	\$49,877	\$451,130	\$451,127	(\$3)
<u>OTHER FINANCING SOURCES (USES)</u>				
Other Transactions	(171,074)	(231,398)	(231,398)	0
Transfers to Other Funds	(147,849)	(130,000)	(130,000)	0
Total Other Financing Sources (Uses)	(\$318,923)	(\$361,398)	(\$361,398)	\$0
Net Change in Fund Balance	(\$269,046)	\$89,732	\$89,729	(\$3)
<u>FUND BALANCE - BEGINNING</u>			952,617	
<u>FUND BALANCE - ENDING</u>			\$1,042,346	

OTHER SUPPLEMENTAL
INFORMATION

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	School Service Fund	2001 Capital Projects Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$209,907	\$103,558	\$417,370	\$730,835
Accounts Receivable	735	0	0	735
Due from Other Funds	618	0	0	618
Inventory	4,403	0	0	4,403
<u>TOTAL ASSETS</u>	<u>\$215,663</u>	<u>\$103,558</u>	<u>\$417,370</u>	<u>\$736,591</u>
<u>LIABILITIES</u>				
Accounts Payable	\$10,915	\$0	\$0	\$10,915
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	4,403	0	0	4,403
Debt Retirement	0	0	417,370	417,370
Capital Projects	0	103,558	0	103,558
Unreserved:				
Undesignated, Reported In:				
School Service Fund	200,345	0	0	200,345
Total Fund Balances	<u>\$204,748</u>	<u>\$103,558</u>	<u>\$417,370</u>	<u>\$725,676</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$215,663</u>	<u>\$103,558</u>	<u>\$417,370</u>	<u>\$736,591</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	School Service Fund	2001 Capital Projects Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$324,286	\$3,470	\$1,262,834	\$1,590,590
State Sources	43,402	0	0	43,402
Federal Sources	286,796	0	0	286,796
Total Revenues	<u>\$654,484</u>	<u>\$3,470</u>	<u>\$1,262,834</u>	<u>\$1,920,788</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>130,000</u>	<u>0</u>	<u>(278,200)</u>	<u>(148,200)</u>
Total Revenues & Other Financing Sources	<u>\$784,484</u>	<u>\$3,470</u>	<u>\$984,634</u>	<u>\$1,772,588</u>
<u>EXPENDITURES</u>				
Food Service	757,881	0	0	757,881
Debt Service	0	0	880,146	880,146
Capital Outlay	0	686,129	0	686,129
Total Expenditures	<u>\$757,881</u>	<u>\$686,129</u>	<u>\$880,146</u>	<u>\$2,324,156</u>
Net Change in Fund Balance	<u>\$26,603</u>	<u>(\$682,659)</u>	<u>\$104,488</u>	<u>(\$551,568)</u>
<u>NET ASSETS - BEGINNING</u>	<u>178,145</u>	<u>786,217</u>	<u>312,882</u>	<u>1,277,244</u>
<u>NET ASSETS - ENDING</u>	<u>\$204,748</u>	<u>\$103,558</u>	<u>\$417,370</u>	<u>\$725,676</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$154,859	\$55,048	\$209,907
Accounts Receivable	735	0	735
Due from Other Funds	618	0	618
Inventory	4,403	0	4,403
<u>TOTAL ASSETS</u>	<u>\$160,615</u>	<u>\$55,048</u>	<u>\$215,663</u>
<u>LIABILITIES</u>			
Accounts Payable	\$10,915	\$0	\$10,915
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	4,403	0	4,403
Fund Balance - Unreserved and Undesignated	145,297	55,048	200,345
Total Fund Equity	\$149,700	\$55,048	\$204,748
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$160,615</u>	<u>\$55,048</u>	<u>\$215,663</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$248,880	\$0	\$248,880
Earnings on Investments and Deposits	375	265	640
Other Income	8,655	0	8,655
Athletic Activities	0	66,111	66,111
Total Local Sources	<u>\$257,910</u>	<u>\$66,376</u>	<u>\$324,286</u>
<u>State Sources</u>			
State Reimbursements	43,402	0	43,402
<u>Federal Sources</u>			
Federal Reimbursements	251,072	0	251,072
Commodities	31,895	0	31,895
Headstart	3,829	0	3,829
Total Federal Sources	<u>\$286,796</u>	<u>\$0</u>	<u>\$286,796</u>
Total Revenues	<u>\$588,108</u>	<u>\$66,376</u>	<u>\$654,484</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	<u>0</u>	<u>130,000</u>	<u>130,000</u>
Total Revenues and Other Financing Sources	<u>\$588,108</u>	<u>\$196,376</u>	<u>\$784,484</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	110,597	111,585	222,182
Insurances	51,464	0	51,464
Fica, Retirement, Etc.	23,257	21,842	45,099
Purchased Services	107,482	8,742	116,224
Supplies and Materials	280,525	14,193	294,718
Capital Outlay	11,004	0	11,004
Other	283	16,907	17,190
Total Expenditures	<u>\$584,612</u>	<u>\$173,269</u>	<u>\$757,881</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$3,496</u>	<u>\$23,107</u>	<u>\$26,603</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$146,204</u>	<u>\$31,941</u>	<u>\$178,145</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$149,700</u>	<u>\$55,048</u>	<u>\$204,748</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	BOND ISSUE DATE			TOTAL
	1994	2000	2004	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$135,585	\$84,361	\$197,424	\$417,370
<u>TOTAL ASSETS</u>	<u>\$135,585</u>	<u>\$84,361</u>	<u>\$197,424</u>	<u>\$417,370</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved - Debt Retirement	\$135,585	\$84,361	\$197,424	\$417,370
<u>TOTAL FUND EQUITY</u>	<u>\$135,585</u>	<u>\$84,361</u>	<u>\$197,424</u>	<u>\$417,370</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	BOND ISSUE DATE			
	1994	2000	2004	TOTAL
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Tax Levy	\$793,064	\$185,479	\$279,367	\$1,257,910
Earnings - Investments & Deposits	3,013	905	1,006	4,924
Total Local Sources	<u>\$796,077</u>	<u>\$186,384</u>	<u>\$280,373</u>	<u>\$1,262,834</u>
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Debt Funds	0	0	262,000	0
Proceeds from Refunding	0	0	9,845,000	9,845,000
Total Other Financing Sources	<u>\$0</u>	<u>\$0</u>	<u>\$10,107,000</u>	<u>\$9,845,000</u>
Total Revenues and Other Financing Sources	<u>\$796,077</u>	<u>\$186,384</u>	<u>\$10,387,373</u>	<u>\$11,107,834</u>
<u>EXPENDITURES</u>				
Redemption of Bond Principal	390,000	50,000	0	440,000
Interest on Bonded Debt	267,840	104,662	66,749	439,251
Dues and Fees	620	275	0	895
Total Expenditures	<u>\$658,460</u>	<u>\$154,937</u>	<u>\$66,749</u>	<u>\$880,146</u>
<u>OTHER FINANCING USES</u>				
Payment to Escrow Agent	0	0	9,912,000	9,912,000
Miscellaneous Expenses	0	0	211,200	211,200
Transfer to Other Debt Funds	262,000	0	0	0
Total Other Financing Uses	<u>\$262,000</u>	<u>\$0</u>	<u>\$10,123,200</u>	<u>\$10,123,200</u>
Total Expenditures and Other Financing Uses	<u>\$920,460</u>	<u>\$154,937</u>	<u>\$10,189,949</u>	<u>\$11,003,346</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	<u>(\$124,383)</u>	<u>\$31,447</u>	<u>\$197,424</u>	<u>\$104,488</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$259,968</u>	<u>\$52,914</u>	<u>\$0</u>	<u>\$312,882</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$135,585</u>	<u>\$84,361</u>	<u>\$197,424</u>	<u>\$417,370</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM
Local Sources

Property Tax Levy	\$909,076
Earnings on Investments and Deposits	14,980
Rentals	3,401
Transportation Fees	100,173
Other Revenue from ISD	45,986
Other Local Revenues	109,376
Total Revenues from Local Sources	<u>\$1,182,992</u>

State Sources

State Aid - Membership	8,353,734
At Risk	294,872
Michigan School Readiness	118,800
Driver Education	25,131
Durant	15,411
Headstart	15,729
Total Revenues from State Sources	<u>\$8,823,677</u>

Federal Sources

Title I	233,484
Title I Carryover	876
Title V	4,744
Drug Free Schools and Communities	4,051
Technology Literacy	5,677
Improving Teacher Quality	70,999
IDEA Flowthrough	114,000
Career Prep	837
Total Revenues from Federal Sources	<u>\$434,668</u>

<u>TOTAL REVENUES</u>	<u>\$10,441,337</u>
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OTHER FINANCING SOURCES

Sale of Equipment	<u>15,535</u>
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TOTAL REVENUE AND OTHER FINANCING
SOURCES

<u>\$10,456,872</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,345,116
Salaries - Non-Professional	84,478
Insurances	312,399
Fica, Retirement, Etc.	293,328
Purchased Services	27,076
Supplies and Materials	42,733
Other	1,563
Total Elementary	<u>\$2,106,693</u>

Middle School

Salaries - Professional	1,014,998
Salaries - Non-Professional	52,644
Insurances	205,684
Fica, Retirement, Etc.	243,000
Purchased Services	28,423
Supplies and Materials	53,638
Capital Outlay	2,398
Other	913
Total Middle School	<u>\$1,601,698</u>

High School

Salaries - Professional	1,081,793
Salaries - Non-Professional	24,814
Insurances	227,775
Fica, Retirement, Etc.	226,643
Purchased Services	27,343
Supplies and Materials	88,576
Other	13,290
Total High School	<u>\$1,690,234</u>

Pre-School Program - Elem.

Salaries - Professional	62,240
Salaries - Non-Professional	23,111
Insurances	19,267
Fica, Retirement, Etc.	18,106
Purchased Services	2,425
Supplies and Materials	557
Other	602
Total Pre-School Program - Elem.	<u>\$126,308</u>

Total Basic Instruction	\$5,524,933
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	\$361,063
Salaries - Non-Professional	71,518
Insurances	131,229
Fica, Retirement, Etc.	90,313
Purchased Services	19,232
Supplies and Materials	6,038
Total Special Education	<u>\$679,393</u>

COMPENSATORY EDUCATION

Salaries - Professional	107,166
Salaries - Non-Professional	170,870
Insurances	168,137
Fica, Retirement, Etc.	60,930
Purchased Services	19,127
Supplies and Materials	3,406
Other	100
Total Compensatory Education	<u>\$529,736</u>

Total Added Needs	<u>\$1,209,129</u>
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<u>Total Instruction</u>	\$6,734,062
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SUPPORT SERVICESSTUDENT SERVICESGuidance Services

Salaries - Professional	224,014
Salaries - Non-Professional	27,630
Insurances	53,153
Fica, Retirement, Etc.	52,261
Purchased Services	13,668
Supplies and Materials	2,280
Other	533
Total Guidance Services	<u>\$373,539</u>

INSTRUCTIONAL STAFFLibrary

Salaries - Professional	102,045
Insurances	18,925
Fica, Retirement, Etc.	20,118
Purchased Services	412
Supplies and Materials	26,085
Other	266
Total Library	<u>\$167,851</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	\$6,060
Unemployment	43,222
Purchased Services	31,722
Supplies and Materials	4,393
Other	13,515
Total Board of Education	<u>\$98,912</u>

Executive Administration

Salaries - Professional	104,115
Salaries - Non-Professional	43,166
Insurances	22,931
Fica, Retirement, Etc.	29,325
Purchased Services	12,522
Supplies and Materials	3,192
Other	759
Total Executive Administration	<u>\$216,010</u>

Total General Administration	\$314,922
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SCHOOL ADMINISTRATION

Salaries - Professional	244,349
Salaries - Non-Professional	104,088
Insurances	75,251
Fica, Retirement, Etc.	91,982
Purchased Services	24,963
Other	1,280
Total School Administration	<u>\$541,913</u>

BUSINESS ADMINISTRATIONFiscal Services

Salaries - Non-Professional	95,452
Insurances	28,847
Fica, Retirement, Etc.	19,986
Purchased Services	5,267
Supplies and Materials	2,942
Total Fiscal Services	<u>\$152,494</u>

Other Business Services

Interest on Loan	<u>16,038</u>
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Total Business Administration	\$168,532
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)OPERATION AND MAINTENANCE OF PLANT

Salaries - Non-Professional	\$328,814
Insurances	128,665
Fica, Retirement, Etc.	75,168
Purchased Services	196,162
Supplies and Materials	295,223
Capital Outlay	2,105
Other	1,163
Total Operation and Maintenance of Plant	<u>\$1,027,300</u>

TRANSPORTATION

Salaries - Non-Professional	312,895
Insurances	122,112
Fica, Retirement, Etc.	70,213
Other Benefits	25
Purchased Services	22,161
Supplies and Materials	112,895
Capital Outlay	306
Other	10,671
Total Transportation	<u>\$651,278</u>

Total Support Services

\$3,245,335

COMMUNITY SERVICES

Salaries - Non-Professional	8,016
Fica, Retirement, Etc.	1,654
Supplies and Materials	1,143
Total Community Services	<u>\$10,813</u>

TOTAL EXPENDITURES

\$9,990,210

OTHER FINANCING USES

Transfers to Other Funds	130,000
Taxes Abated and Written Off	5,626
Payments on Loans	241,307
Total Other Financing Uses	<u>\$376,933</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES
\$10,367,143

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Academic Games	\$284	\$0	\$0	\$284
AP Social Studies	0	3,102	3,096	6
Art Fund	4,182	3,091	3,710	3,563
Band	28	766	578	216
Baseball	555	4,137	3,373	1,319
Basketball	1,833	4,252	3,232	2,853
Brick Garden Fund	3,600	1,637	3,494	1,743
Builders Club	267	291	305	253
Bus Driver Rodeo Fund	329	0	40	289
Cheerleaders	(375)	7,948	5,444	2,129
Class of 2003	2,052	112	2,164	0
Class of 2004	1,628	5,823	6,473	978
Class of 2005	567	10,212	8,973	1,806
Class of 2006	554	280	163	671
Class of 2007	40	650	157	533
Drama Fund	4,912	3,578	3,296	5,194
Elementary Fund	17,716	46,610	43,678	20,648
Equestrian Team	152	720	623	249
Football	1,736	12,418	13,740	414
Future Farmers of America	1,806	0	872	934
Girls Basketball	8,927	6,757	9,802	5,882
Girls Soccer Club	392	3,159	1,052	2,499
Golden Apple	46,935	0	29,086	17,849
High School Fund	2,075	2,382	2,300	2,157
High School Gift Fund	148	546	522	172
High School Pop Fund	11,658	15,608	22,144	5,122
High School Student Council	1,283	1,051	1,332	1,002
JRN Scholarship Fund	1,234	1,100	500	1,834
Latchkey	1,855	4,471	6,326	0
Library	1,640	1,492	883	2,249
M.V. Accelerated Reading	2,090	1,250	1,981	1,359
M.V. Fourth Grade	6,008	26,938	28,457	4,489
M.V. Library	31	80	9	102
M.V. Music Program	2,549	562	2,156	955
Middle School Activities	0	293	0	293
Middle School Drama Club	1,299	3,465	4,452	312
Middle School Fund	4,697	10,757	9,729	5,725
Middle School Library	961	6,236	6,282	915
Middle School Student Council	1,790	1,996	2,144	1,642
Middle School Technology	179	294	0	473
Middle School Travel Club	4,732	25,107	23,834	6,005
National Honor Society	930	717	1,062	585

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2004

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
National Jr. Honor Society	\$477	\$1,551	\$1,507	\$521
Project Graduation	359	6,260	5,198	1,421
R.A.I.D.	2,212	3,107	2,980	2,339
Senior Gift	3,869	0	3,869	0
Shop Club	500	1,340	1,045	795
Ski Club	3,557	7,887	7,730	3,714
SMS Tech Committee	151	331	0	482
Soccer	1,364	349	1,581	132
Softball	381	3,721	4,091	11
Spanish Club	59	0	0	59
Special Education Club	0	329	0	329
Tennis	81	1,354	1,428	7
Volleyball	233	250	250	233
Wrestling	71	4,085	2,403	1,753
Yearbook	2,525	17,594	18,437	1,682
<u>TOTALS</u>	<u>\$159,118</u>	<u>\$268,046</u>	<u>\$307,983</u>	<u>\$119,181</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$154,111

1998 DURANT PACKAGE RESOLUTION BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005	\$0	4.761353%	\$0	\$0
2006	7,460	4.761353%	3,363	10,823
2007	35,646	4.761353%	15,422	51,068
2008	8,187	4.761353%	2,635	10,822
2009	8,577	4.761353%	2,246	10,823
2010	8,984	4.761353%	1,837	10,821
2011	9,413	4.761353%	1,409	10,822
2012	9,860	4.761353%	961	10,821
2013	10,329	4.761353%	492	10,821
<u>TOTAL</u>	<u>\$98,456</u>		<u>\$28,365</u>	<u>\$126,821</u>

DATE OF ISSUE - July 26, 2000

Original amount of issue - \$2,065,000

GENERAL OBLIGATION - 2000 SCHOOL BUILDING AND SITE BONDS

<u>PAYMENT DATE MAY 15TH</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>TOTAL</u>
2004-2005	5.000%	\$50,000	\$51,081	\$51,081	\$152,162
2005-2006	5.000%	50,000	49,831	49,831	149,662
2006-2007	5.000%	50,000	48,581	48,581	147,162
2007-2008	5.125%	55,000	47,331	47,331	149,662
2008-2009	5.125%	65,000	45,922	45,922	156,844
2009-2010	5.200%	70,000	44,256	44,256	158,512
2010-2011	5.200%	80,000	42,436	42,436	164,872
2011-2012	5.200%	85,000	40,356	40,356	165,712
2012-2013	5.200%	100,000	38,146	38,146	176,292
2013-2014	5.300%	120,000	35,546	35,546	191,092
2014-2015	5.300%	140,000	32,366	32,366	204,732
2015-2016	5.375%	175,000	28,656	28,656	232,312
2016-2017	5.750%	175,000	23,953	23,953	222,906
2017-2018	5.500%	175,000	19,250	19,250	213,500
2018-2019	5.500%	175,000	14,438	14,438	203,876
2019-2020	5.500%	175,000	9,625	9,625	194,250
2020-2021	5.500%	175,000	4,812	4,812	184,624
<u>TOTAL</u>		<u>\$1,915,000</u>	<u>\$576,586</u>	<u>\$576,586</u>	<u>\$3,068,172</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

DATE OF ISSUE - June 1, 2001

Original amount of issue - \$1,789,620

2001 ENERGY CONSERVATION IMPROVEMENT BONDS (GENERAL OBLIGATION - LIMITED TAX)

PAYMENT DATE JUNE 1ST	INTEREST RATE	PRINCIPAL AMOUNT
2005	0.00%	\$137,663
2006	0.00%	137,663
2007	0.00%	137,663
2008	0.00%	137,663
2009	0.00%	137,663
2010	0.00%	137,663
2011	0.00%	137,663
2012	0.00%	137,663
2013	0.00%	137,663
2014	0.00%	137,664

<u>TOTAL</u>	<u>\$1,376,631</u>
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DATE OF ISSUE - January 21, 2004

Original amount of issue - \$9,845,000

2004 REFUNDING BONDS (GENERAL OBLIGATION - UNLIMITED TAX)

PAYMENT DATE	RATE	PRINCIPAL REQUIREMENT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL REQUIREMENT
2004-2005	2.000%	\$520,000	\$218,835	\$152,086	\$890,921
2005-2006	2.000%	535,000	146,886	146,886	828,772
2006-2007	2.000%	545,000	141,536	141,536	828,072
2007-2008	2.000%	555,000	136,086	136,086	827,172
2008-2009	2.200%	560,000	130,536	130,536	821,072
2009-2010	2.450%	570,000	124,376	124,376	818,752
2010-2011	2.700%	580,000	117,394	117,394	814,788
2011-2012	3.000%	595,000	109,564	109,564	814,128
2012-2013	3.150%	605,000	100,639	100,639	806,278
2013-2014	3.350%	610,000	91,110	91,110	792,220
2014-2015	3.500%	620,000	80,892	80,893	781,785
2015-2016	3.650%	615,000	70,043	70,042	755,085
2016-2017	3.800%	600,000	58,819	58,819	717,638
2017-2018	4.000%	590,000	47,419	47,419	684,838
2018-2019	4.000%	595,000	35,619	35,619	666,238
2019-2020	4.125%	585,000	23,719	23,719	632,438
2020-2021	4.125%	565,000	11,653	11,653	588,306

<u>TOTAL</u>	<u>\$9,845,000</u>	<u>\$1,645,126</u>	<u>\$1,578,377</u>	<u>\$13,068,503</u>
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SANDUSKY COMMUNITY SCHOOLS

SANDUSKY, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 3, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of
Sandusky Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the Sandusky Community Schools' basic financial statements and have issued our report thereon dated August 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sandusky Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Sandusky Community Schools, in a separate letter dated August 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sandusky Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Sandusky Community Schools, in a separate letter dated August 3, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 3, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Sandusky Community Schools

Compliance

We have audited the compliance of Sandusky Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Sandusky Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sandusky Community Schools' management. Our responsibility is to express an opinion on Sandusky Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sandusky Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sandusky Community Schools' compliance with those requirements.

In our opinion, Sandusky Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Sandusky Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sandusky Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Sandusky Community Schools

Page 2

August 3, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies:	84.010		
ESEA Title I - Carryover (01-02)		021530-0203	\$29,447
ESEA Title I - Carryover (02-03)		031530-0304	876
ESEA Title I - Regular (02-03)		031530-0203	252,348
ESEA Title I - Regular (03-04)		041530-0304	233,484
Total ESEA Title I Grants to Local Educational Agencies			<u>\$516,155</u>
Innovative Education Program Strategies	84.298		
Title V LEA Allocation (03-04)		040250-0304	4,744
Technology Literacy Challenge Grant	84.318		
Technology Literacy Challenge Grant (03-04)		044290-0304	5,677
Improving Teacher Quality	84.367		
Improving Teacher Quality (02-03)		030520-0203	74,197
Improving Teacher Quality (03-04)		040520-0304	70,999
Total Improving Teacher Quality			<u>\$145,196</u>
Total Passed Through Michigan Department of Education			<u>\$671,772</u>
Passed Through Sanilac Intermediate School District:			
Special Education - Grants to States:	84.027		
IDEA - Flowthrough (03-04)		040450-0304	114,000
Passed Through Tuscola Intermediate School District:			
Vocational Education - Grants to States	84.048	033350-401511	837
Safe and Drug-Free Schools & Communities - State Grants:	84.186		
Drug-Free Schools (03-04)		042860-0304	4,051
Total Passed Through Tuscola Intermediate School District			<u>\$4,888</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$790,660</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENT IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$4,350	\$29,447	\$0	\$0	\$4,350	\$0
0	0	876	0	876	0
27,206	252,348	0	0	27,206	0
0	0	233,484	0	233,484	0
<u>\$31,556</u>	<u>\$281,795</u>	<u>\$234,360</u>	<u>\$0</u>	<u>\$265,916</u>	<u>\$0</u>
0	0	4,744	0	4,744	0
0	0	5,677	0	5,677	0
18,773	74,197	0	0	18,773	0
0	0	70,999	0	70,999	0
<u>\$18,773</u>	<u>\$74,197</u>	<u>\$70,999</u>	<u>\$0</u>	<u>\$89,772</u>	<u>\$0</u>
<u>\$50,329</u>	<u>\$355,992</u>	<u>\$315,780</u>	<u>\$0</u>	<u>\$366,109</u>	<u>\$0</u>
0	0	114,000	0	114,000	0
0	0	837	0	837	0
0	0	4,051	0	4,051	0
<u>\$0</u>	<u>\$0</u>	<u>\$4,888</u>	<u>\$0</u>	<u>\$4,888</u>	<u>\$0</u>
\$50,329	\$355,992	\$434,668	\$0	\$484,997	\$0

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	\$29,819
Bonus Commodities		N/A	2,076
Total Food Distribution			<u>\$31,895</u>
School Breakfast Program	10.553	N/A	63,913
National School Lunch Program	10.555	N/A	187,159
Headstart Program	10.558	N/A	<u>3,829</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			<u>\$286,796</u>
<u>TOTAL FEDERAL AWARDS</u>			<u>\$1,077,456</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENT IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$29,819	\$0	\$29,819	\$0
0	0	2,076	0	2,076	0
<u>\$0</u>	<u>\$0</u>	<u>\$31,895</u>	<u>\$0</u>	<u>\$31,895</u>	<u>\$0</u>
0	0	63,913	0	63,913	0
0	0	187,159	0	187,159	0
<u>0</u>	<u>0</u>	<u>3,829</u>	<u>0</u>	<u>3,829</u>	<u>0</u>
<u>\$0</u>	<u>\$0</u>	<u>\$286,796</u>	<u>\$0</u>	<u>\$286,796</u>	<u>\$0</u>
<u>\$50,329</u>	<u>\$355,992</u>	<u>\$721,464</u>	<u>\$0</u>	<u>\$771,793</u>	<u>\$0</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$721,464

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS

General Fund \$434,668

School Service Fund 286,796

TOTAL \$721,464

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

SANDUSKY COMMUNITY SCHOOLS, SANDUSKY, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$650,549
<u>Less:</u> State Funded Grants		
Driver Education	(\$10,445)	
School Breakfast Program	(22,923)	
Total State Funded Grants		(33,368)
<u>Add:</u> Grants Passed Through the Sanilac Intermediate School District I.D.E.A. Flow-through (CFDA 84.027)		114,000
Grants Passed Through Tuscola Intermediate School District		
Drug-Free Schools and Communities (CFDA 84.186)	\$4,051	
Vocational Education - Grants to States (CFDA 84.048)	837	
Total Grants Passed Through Tuscola Intermediate School District		4,888
Entitlement and Bonus Commodities (CFDA 10.550)		31,895
Headstart Program (CFDA 10.558)		3,829
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$771,793</u>

SANDUSKY COMMUNITY SCHOOLS- SANDUSKY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
10.553 and 10.555

Name of Federal Program or Cluster
Nutrition Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☒ Yes ☐ No

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs.



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 3, 2004

To the Board of Education of
Sandusky Community Schools

In planning and performing our audit of the financial statements of Sandusky Community Schools for the year ended June 30, 2004 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Sandusky Community Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The following are informational items that will affect the District in the future:

CURRENT

1. Time Certifications

The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

2. 1994 Debt Retirement Fund

The 1994 Debt was refinanced during the fiscal year. All remaining cash in the 1994 Debt Retirement Fund should be disbursed according to Michigan Department of Treasury guidelines.

FUTURE ISSUES

1. Chart of Accounts

As you may be aware of, the Center for Educational Performance and Information (CEPI) has implemented a new upload application/database for financial reporting for districts. This new application/database is called the Financial Information Database (FID). For the fiscal year 2003 – 2004 you will be required to submit your financial data via the FID. The EDN/Form B submission process has been eliminated and is no longer available. The due date for the 2003 – 2004 FID submission is November 15, 2004.



Sandusky Community Schools

Page 2

August 3, 2004

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Sandusky Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS